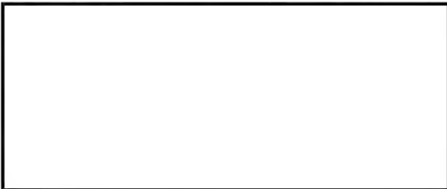


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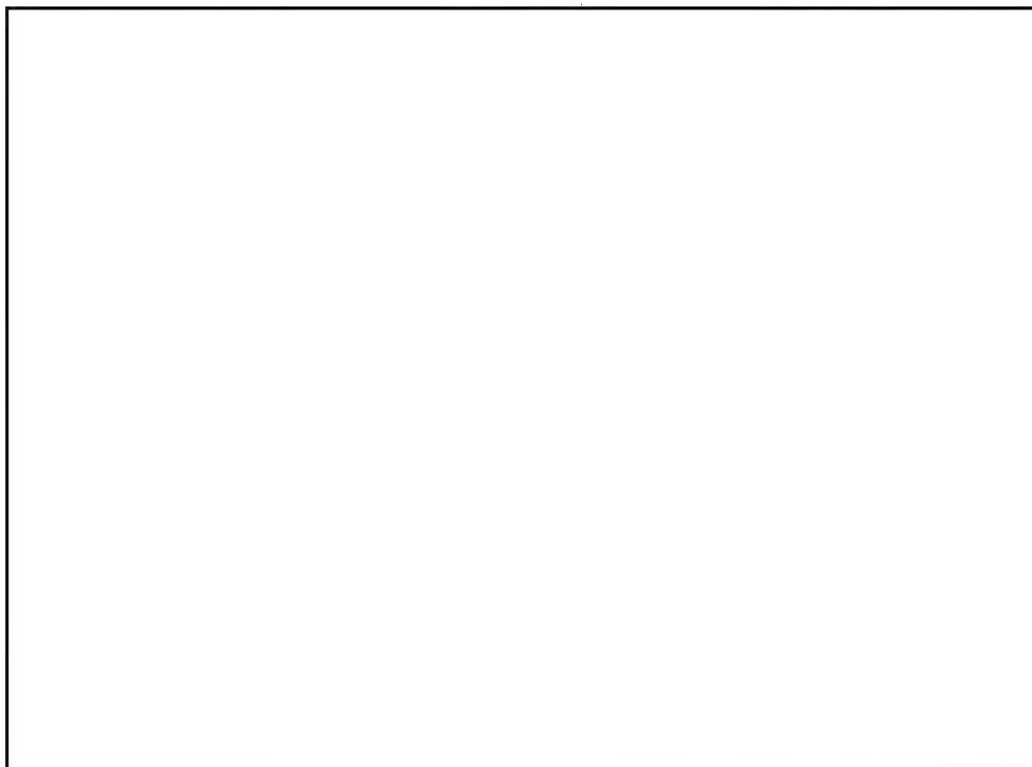
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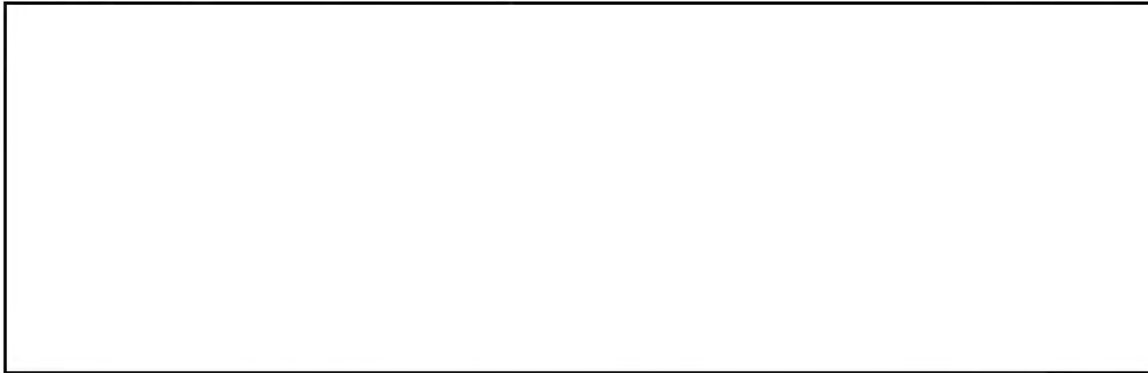
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THE ARAB-ISRAELI SITUATION



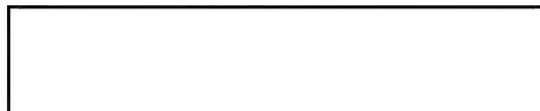
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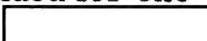
**1. KING SAUD SETS 23 JULY DEADLINE FOR NEW
DHAHRAN AIRFIELD AGREEMENT**

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King Saud has informed Ambassador Wadsworth that if by 23 July Saudi Arabia's terms for extension of the agreement for American use of the

Dhahran airfield are not accepted, or an equally acceptable offer proposed, negotiations will be considered ended and the agreement not extended.

The five-year agreement on the use of the airfield expired on 18 June, but was extended for one month to allow time for further negotiations. 

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Saud's note to the ambassador added that the question of Dhahran airfield and continuance of the American training mission "would not, under any condition, affect the friendship existing between the Saudi and American governments."

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4. VIET MINH PROPOSES PERSONAL TALKS WITH LAOTIAN LEADERS

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In a note to Laotian premier Souvanna Phouma received on 11 July, Viet Minh premier Pham Van Dong proposed personal talks with Laotian government leaders to remove "all sources of friction." He also proposed the formation of a joint team to investigate disputed areas on the Lao-North Vietnam frontier.

The Viet Minh premier reiterated his previous statements that North Vietnam has not aided and does not intend to aid the Pathet Lao and offered all possible assistance toward settlement of the dispute. At the same time he expressed the wish that Laos would follow a policy of neutralism.

The Laotian premier indicated to the American ambassador his willingness to send a team for a joint border investigation, but stated flatly that Pham Van Dong had lied concerning Viet Minh aid to the Pathet Lao.

Comment

Although the message--the first direct proposal for a meeting--was couched in ingratiating terms, it hinted strongly that Communist terms for settlement of the Pathet Lao problem continue to be Laotian adoption of a policy of nonalignment with the West concurrently with closer relations with the Sino-Soviet bloc.

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5. EXILED LAOTIAN LEADER RETURNING TO BRING ABOUT SETTLEMENT WITH COMMUNISTS

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 Prince Petsarath, a "free Lao" leader who has been in voluntary exile in Thailand for over ten years, has told the American embassy in Bangkok he intends to return to Vientiane to "lend his influence" in settling the Pathet Lao problem. Petsarath, half-brother to both the Laotian premier and the Pathet Lao chief, reportedly favors a coalition government in Laos to include the Pathets and is confident he can promote an accord if both sides "yield slightly." He believes the Viet Minh will not interfere.

Laotian premier Souvanna Phouma has sponsored Petsarath's return in the belief that he is a staunch nationalist who will help to wean the bulk of the Pathets from their Viet Minh mentors. Crown Prince Savang and Deputy Premier Katay, however, have opposed his return, viewing him as a dangerous and ambitious element likely to stir up trouble in both palace and political circles.

Petsarath's agreement to return and Hanoi's offer to assist in an "internal" settlement of the Pathet Lao question will undoubtedly revive Souvanna's optimism over an early solution, and may encourage him to make concessions to further this end. Recently Souvanna had shown irritation at Prince Souphannouvong's intransigence and had issued a final offer to meet the Pathet Lao leader in Luang Prabang on 20 July, failing which he planned intensification of the government's guerrilla operations against the Pathets. 

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6. SOVIET-EAST GERMAN NEGOTIATIONS

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[REDACTED]

In the joint Soviet-East German communiqué of 17 July it was announced that the USSR had agreed to give considerable economic assistance to East Germany. The proposals advanced concerning German unification and troop withdrawal from the two parts of Germany contained nothing new.

The USSR is to grant East Germany free currency for purchases in the world market and new long-term credits in an unspecified amount. There will also be an increase in exchanges of goods under existing trade agreements. As further economic assistance the USSR agreed, effective 1 January 1957, to reduce by one half the annual payments made by East Germany toward Soviet occupation costs.

The Soviet grant of free currency suggests that East Germany has a pressing need for foreign exchange. The probable purpose of the long-term credits is to bolster East Germany's competitive position vis-a-vis West Germany.

According to press reports, Khrushchev in a blunt statement at a banquet for the East German leaders called for the building of a strong East Germany capable of waiting for West Germany to ask for reunification. Khrushchev stated, "Do not hurry. The time will come when they (the West Germans) will come knocking at your door."

Khrushchev's speech is added evidence that a major purpose of the visit of the East German leaders to Moscow is to strengthen the position of their government, both internally and externally. The remarks he directed at West Germany, together with the recent recall of the Soviet ambassador to Bonn, indicate a hardening of the Soviet attitude toward the Adenauer government, which faces elections next year.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 17 July)

Nothing of significance to report.

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